

Rationale for Senate Bill 592

General Summary

Budget stability is a primary goal of all public school financial officials and is the primary benefit of Senate Bill 592. One of the most volatile budget line-items is energy, which includes natural gas and diesel fuel (See Table I). The steep rise in diesel fuel prices in fiscal year 2008 resulted in 50% more-than-expected fuel costs for all public school districts in Michigan, resulting, in some cases, in the closing of bus routes, the reduction of payments for school supplies and services, the cancellation of athletic events and the halting of many community public services. Funding this shortfall out of the general fund was also a challenge, and if it were not for fuel prices dropping drastically in the last few months of 2008, school districts could have been facing major budget deficits at year's end. Natural gas spikes have created similar blown-budgets in other years. Public school officials do not want to go through such an experience again. Senate Bill 592 will solve a number of school energy budgeting problems, and will provide Michigan public schools with additional benefits such as risk mitigation, fuel discounting and extended cost fixing for energy.

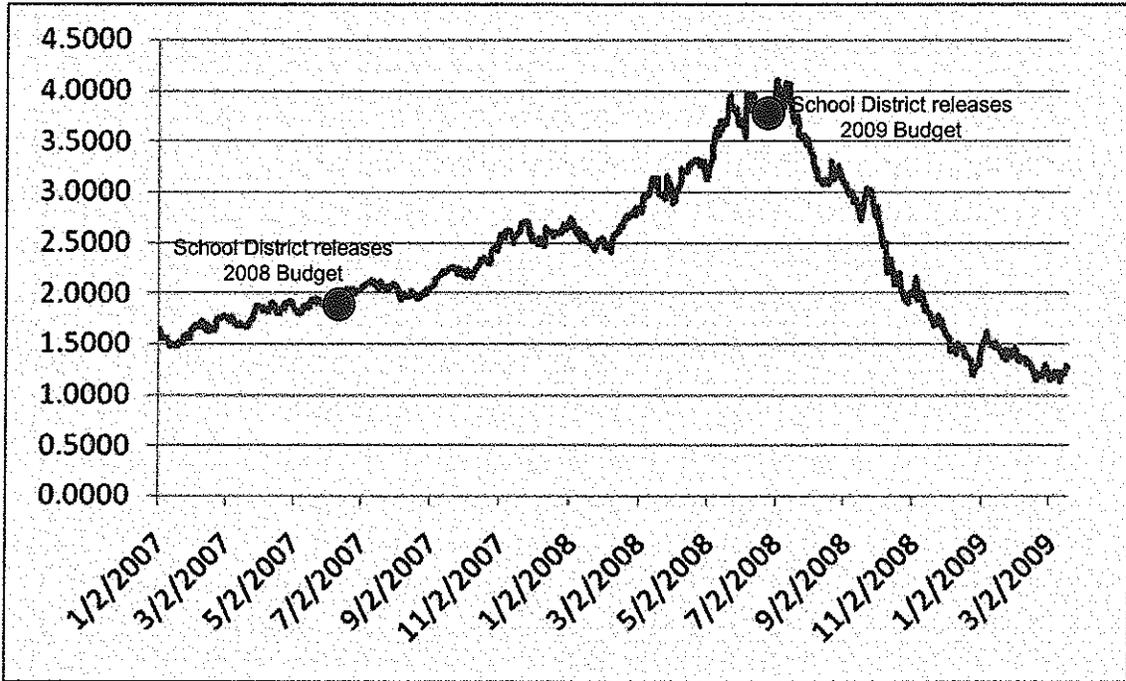
Senate Bill 592 does not create new funds nor raise taxes to the School District constituents; rather, the applicable provisions of the School Code provide that existing funds in the School District's general fund would be used to pay the fixed principal and interest on the bonds rather than the erratic payments resulting from volatile fuel prices. The result will be, among other things, longer budget stability, energy discounting and credit-enhancement for the District.

Energy Bonds Provide:

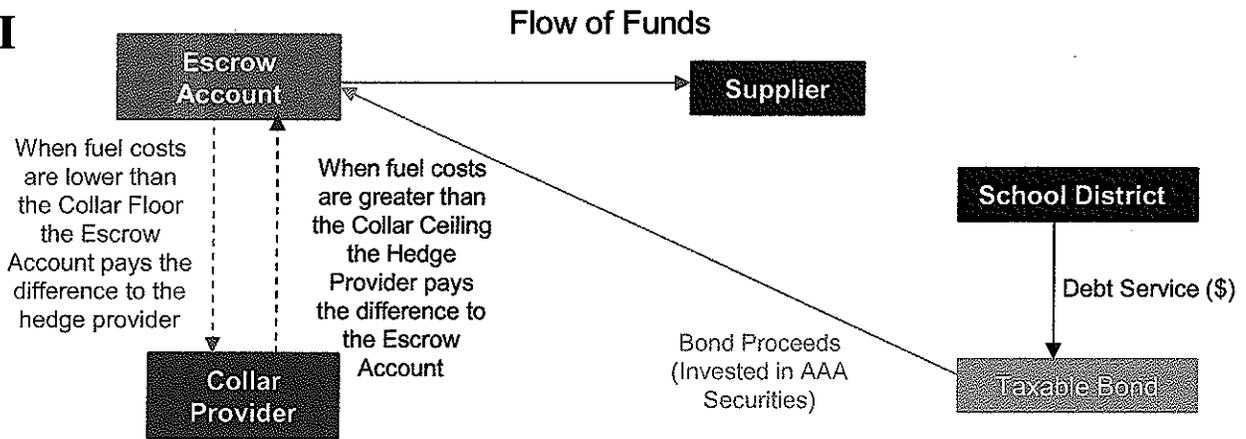
- A dedicated escrow account that pays for all invoices and funds a three to five-year fixed energy "cap" (See Table III). Without the escrow account, a school district could only fix prices to one-year or less. Longer fixed prices give more accurate budgeting and more stability for schools.
- The dedicated bond escrow account which creates a low-risk situation for national companies that fix energy prices, such as Shell Oil, British Petroleum, and Marathon Oil. These highly-rated companies are willing to discount costs and provide longer price stability only because of the existence of the dedicated escrow account.
- Capped fuel prices for a school district. For example, if diesel fuel is capped at \$1.97 per gallon for three-years (See Table II), then the school district will not pay more than \$1.97 per gallon over the three-year period. If fuel prices rise nationally to \$3.00 per gallon, the school district would save \$1.03 per gallon due to the existence of the cap.
- Low-risk for vendors. Major fuel and energy suppliers have already offered deep discounts on diesel and natural gas to schools only because of the escrow account. In this way, "financially high risk" school districts can become "low risk" and highly-desirable clients for vendors.
- Budgeting peace-of-mind. School business officials know how much they will pay for energy for three to five years. School boards support the stability created by the dedicated escrow account because it relieves them of one of the more volatile budget items. School teachers and other employees support the program because rising national energy prices could lead to school supply or service reductions, including job cuts. School financial officers support the program because they will not have to cut school programs mid-year due to energy spikes.

RATIONALE FOR SENATE BILL 592- TABLES

I



II



III

How a Fuel Collar Works

